The Fiscal Monitor

A Publication of the Department of Finance

Highlights

February 2007: budgetary surplus of $4.6 billion

There was a budgetary surplus of $4.6 billion in February 2007, up $0.6 billion from the $3.9-billion surplus in February 2006. Budgetary revenues rose $1.8 billion, or 8.6 per cent, due primarily to strong growth in corporate income tax revenues, partially offset by a decline in goods and services tax (GST) revenues resulting from the July 1, 2006, rate reduction. Program expenses increased by $1.2 billion, or 8.3 per cent, reflecting an increase in transfer payments and departmental operating expenses. Public debt charges were virtually unchanged.

April 2006 to February 2007: budgetary surplus of $9.2 billion, including the cost of Budget 2007 proposals

The budgetary surplus is estimated at $14.1 billion for the first 11 months of the 2006–07 fiscal year, up from the $13.0-billion surplus posted in the same period of 2005–06. Budgetary revenues rose $10.4 billion, or 5.2 per cent, reflecting strong growth in income tax revenues. Program expenses were up $9.0 billion, or 5.7 per cent, due to both higher transfers and other program expenses. Public debt charges were up $0.3 billion.

The results to date are broadly consistent with the Budget 2007 projection of a final surplus of $9.2 billion for 2006–07.

- The monthly results through February do not reflect $4.9 billion in measures announced in Budget 2007 and which will take effect in 2006–07, including the new child tax credit, the Canada ecoTrust for Clean Air and Climate Change, and the Patient Wait Times Guarantee Trust. The cost of these measures will be reflected in March and the end-of-year supplementary period. Deducting the cost of these measures from the $14.1-billion year-to-date surplus would yield a surplus of $9.2 billion.
- The final outcome for 2006–07 will be determined by results in March and the end-of-year supplementary period.

February 2007

There was a budgetary surplus of $4.6 billion in February 2007, up from the $3.9-billion surplus in February 2006.

Budgetary revenues increased by $1.8 billion, or 8.6 per cent, to $22.8 billion.

- Personal income tax revenues rose $0.2 billion, or 2.6 per cent. This reflects a one-time adjustment in February 2007 that raised employment insurance (EI) premium revenues by $0.4 billion and lowered personal income tax revenues by an equal and offsetting amount, with no net impact on the budgetary balance. The adjustment unwinds an understatement of EI premium revenues thus far in 2006–07 and a corresponding overstatement of personal income tax revenues (both of which are withheld by employers at source).
- Corporate income tax revenues rose $1.2 billion, or 23.7 per cent, due in part to a large refund paid in February 2006, which lowered net receipts in that month. Corporate income tax revenues can be volatile on a monthly basis,

as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place in prior years, can influence results in a given month.

- Other income tax revenues—withholdings from non-residents—rose 12.2 per cent, reflecting ongoing strength in corporate profitability. Other income tax revenues can also be volatile on a monthly basis, as they are determined in large part by corporate dividend payments.
- Excise taxes and duties were down $0.5 billion. GST revenues dropped by $0.7 billion, or 24.6 per cent, reflecting the 1-percentage-point reduction in the GST rate effective July 1, 2006, and a number of large remittances made by companies in February 2006. The decline in GST revenues was partially offset by strong growth in customs import duties (up $0.1 billion, or 48.9 per cent).
- EI premium revenues increased by $0.6 billion, largely due to the one-time $0.4-billion adjustment noted above.
- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, return on investments and foreign exchange revenues, increased by $0.3 billion, or 17.6 per cent.

Program expenses in February 2007 were $15.5 billion, up $1.2 billion or 8.3 per cent from February 2006, reflecting an increase in transfer payments and operating expenses of departments and agencies, including National Defence.

Transfer payments increased by $0.8 billion, or 8.3 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, rose $0.4 billion, or 7.9 per cent. Elderly benefits increased by 3.8 per cent. EI benefits increased by 4.9 per cent, reflecting an increase in regular benefits. Children's benefits, which consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), were up $0.2 billion, reflecting transfers under the UCCB.
- Transfers to other levels of government, consisting of transfers in support of the Canada Health Transfer and Canada Social Transfer, fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were up $0.3 billion, or 8.7 per cent.
- Subsidies and other transfers increased by $0.1 billion, or 8.7 per cent, reflecting increases across a number of departments.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased by $0.4 billion, or 8.1 per cent.

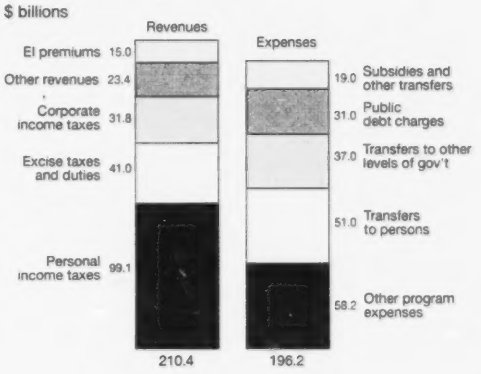
Public debt charges decreased by $13 million, or 0.5 per cent.

April 2006 to February 2007

In the first 11 months of the 2006–07 fiscal year, there was a budgetary surplus of $14.1 billion, up $1.1 billion from the $13.0-billion surplus reported for the same period of 2005–06.

Budgetary revenues were up $10.4 billion, or 5.2 per cent, to $210.4 billion.

Revenues and expenses
(April 2006 to February 2007)



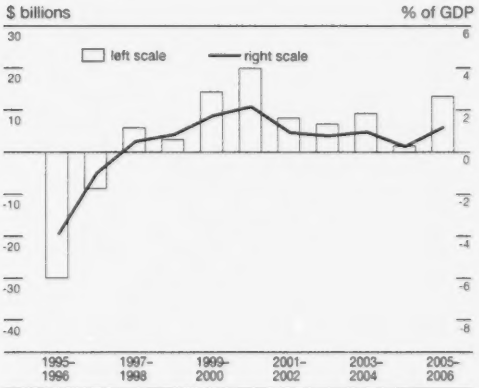
- Personal income tax revenues increased by $6.8 billion, or 7.3 per cent, reflecting solid growth in employment and wages and salaries combined with the progressive nature of the personal income tax system.
- Corporate income tax revenues rose $4.0 billion, or 14.5 per cent, reflecting gains in profitability in 2005 and 2006, particularly in the energy sector.
- Other income tax revenues rose $0.8 billion, or 19.0 per cent, boosted by a one-time payment in November 2006 related to the disposition of Canadian assets by a non-resident firm.
- Excise taxes and duties declined by $2.3 billion, or 5.3 per cent, primarily due to a $3.1-billion drop in GST revenues, reflecting the impact of the July 1, 2006, GST rate reduction. This decline was partially offset by the one-time charge on duty deposit refunds under the Canada-United States Softwood Lumber Agreement, which raised sales and excise tax revenues by $0.5 billion in January and February. Sales and excise tax revenues were also boosted by the introduction of an export charge on softwood lumber exports to the U.S., effective October 12, 2006, consistent with the Agreement. Over the fiscal year as a whole, there will be no net budgetary impact from either the charge on duty deposit refunds or the export charge: revenues from the former are transferred to U.S. interests under the terms of the Agreement and revenues from the latter, net of the costs of administering the Agreement, will be transferred to provincial governments. In total, sales and excise tax revenues rose $0.6 billion, or 6.8 per cent. Customs import duties were up $0.2 billion, or 7.7 per cent, while revenues from the Air Travellers Security Charge were up $10 million.
- EI premium revenues declined by 0.6 per cent, reflecting the declines in the premium rate in 2006 and 2007, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective January 1, 2006.
- Other revenues rose $1.2 billion, or 7.0 per cent.

Program expenses in the April 2006 to February 2007 period were $165.2 billion, up $9.0 billion, or 5.7 per cent, from the same period of 2005–06 due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by $0.3 billion.

Transfer payments, which account for about two-thirds of total program expenses, increased by $6.0 billion, or 5.9 per cent.

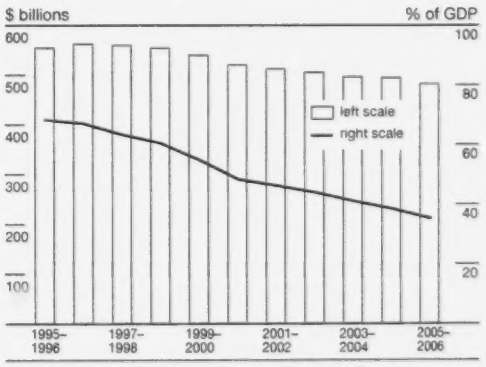
- Transfers to persons grew by 5.8 per cent. Elderly benefits rose 4.7 per cent while EI benefits declined 2.0 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in maternity and parental benefits, which have decreased due to the transfer to the

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

province of Quebec of the responsibility for delivering maternity and parental benefits in that province, effective January 1, 2006. Children's benefits increased by 21.2 per cent, reflecting transfers under the new UCCB program, which began in July 2006.

- Transfers to other levels of government were up $2.5 billion, or 7.4 per cent, largely due to the impact of the 2004 agreement on health care, as well as a $650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by $0.6 billion, or 3.4 per cent, reflecting an increase in agricultural assistance and transfers to U.S. interests under the Canada-U.S. Softwood Lumber Agreement.

Other program expenses increased by $3.0 billion, 5.5 per cent, due to an increase in the operating costs of departments and agencies as well as a one-time increase in September 2006 in the Government's estimated pension liabilities.

Public debt charges were up 1.0 per cent, reflecting an increase in the average effective interest rate on the stock of interest-bearing debt.

Financial source of $8.4 billion for April 2006 to February 2007

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a requirement of $5.7 billion in the April 2006 to February 2007 period, reflecting payments made to provinces and international organizations pursuant to Bill C-48. This is down from a $7.1-billion requirement in the same period of 2005–06. The decrease in the requirement largely reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board in 2005–06.

With a budgetary surplus of $14.1 billion and a requirement of $5.7 billion from non-budgetary transactions, there was a net financial source of $8.4 billion in the first 11 months of 2006–07 compared to a net financial source of $5.9 billion in the same period of 2005–06.

Net financing activities down $17.4 billion

The Government used this net financial source of $3.4 billion and a reduction in its cash balances of $9.0 billion to reduce its market debt by $17.4 billion by the end of February 2007. The reduction in market debt was achieved largely through a reduction of treasury bills, marketable bonds and foreign currency borrowings. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of February stood at $8.9 billion.

Table 1
Summary statement of transactions

	February		April to February	
	2006	2007	2005–06	2006–07
	($ millions)			
Budgetary transactions				
Revenues	20,999	22,806	199,936	210,363
Expenses				
Program expenses	-14,320	-15,502	-156,233	-165,213
Public debt charges	-2,731	-2,718	-30,717	-31,030
Budgetary balance (deficit/surplus)	3,948	4,586	12,986	14,120
Non-budgetary transactions	-2,131	-2,526	-7,060	-5,714
Financial source/requirement	1,817	2,060	5,926	8,406
Net change in financing activities	-498	3,280	-18,983	-17,445
Net change in cash balances	1,319	5,340	-13,057	-9,039
Cash balance at end of period			4,099	8,920

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	February			April to February		
	2006	2007	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	8,422	8,638	2.6	92,294	99,073	7.3
Corporate income tax	5,226	6,466	23.7	27,799	31,827	14.5
Other income tax	411	461	12.2	4,321	5,142	19.0
Total income tax	14,059	15,565	10.7	124,414	136,042	9.3
Excise taxes and duties						
Goods and services tax	2,831	2,134	-24.6	31,333	28,185	-10.0
Customs import duties	237	353	48.9	3,073	3,310	7.7
Sales and excise taxes	643	707	10.0	8,626	9,212	6.8
Air Travellers Security Charge	37	31	-16.2	316	326	3.2
Total excise taxes and duties	3,748	3,225	-14.0	43,348	41,033	-5.3
Total tax revenues	17,807	18,790	5.5	167,762	177,075	5.6
Employment insurance premiums	1,710	2,273	32.9	15,091	15,007	-0.6
Other revenues	1,482	1,743	17.6	17,083	18,281	7.0
Total budgetary revenues	20,999	22,806	8.6	199,936	210,363	5.2

Note: Totals may not add due to rounding.

Table 3

Budgetary expenses

	February			April to February		
	2006	2007	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,496	2,591	3.8	26,680	27,926	4.7
Employment insurance benefits	1,355	1,421	4.9	13,069	12,809	-2.0
Children's benefits	758	962	26.9	8,469	10,265	21.2
Total	4,609	4,974	7.9	48,218	51,000	5.8
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,584	1,679	6.0	17,417	18,462	6.0
Canada Social Transfer	686	709	3.4	7,540	7,792	3.3
Total	2,270	2,388	5.2	24,957	26,254	5.2
Fiscal transfers	1,044	1,126	7.9	11,641	12,249	5.2
Canada's cities and communities	0	31	n/a	575	579	0.7
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-261	-226	-13.4	-2,722	-2,734	0.4
Total	3,053	3,319	8.7	34,451	36,998	7.4
Subsidies and other transfers						
Agriculture and Agri-Food	107	159	48.6	2,038	2,416	18.5
Foreign Affairs and International Trade	247	289	17.0	2,184	2,699	23.6
Health	106	131	23.6	1,633	1,734	6.2
Human Resources and Social Development	140	126	-10.0	1,748	1,509	-13.7
Indian Affairs and Northern Development	277	317	14.4	4,263	4,246	-0.4
Industry	168	194	15.5	1,778	1,859	4.6
Other	581	552	-5.0	4,704	4,508	-4.2
Total	1,626	1,768	8.7	18,348	18,971	3.4
Total transfer payments	9,288	10,061	8.3	101,017	106,969	5.9
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	70	72	2.9	1,098	1,114	1.5
Canada Mortgage and Housing Corporation	150	177	18.0	1,857	1,892	1.9
Other	311	223	-28.3	3,072	3,095	0.7
Total	531	472	-11.1	6,027	6,101	1.2
Defence	1,223	1,345	10.0	13,557	14,394	6.2
All other departments and agencies	3,278	3,624	10.6	35,632	37,749	5.9
Total other program expenses	5,032	5,441	8.1	55,216	58,244	5.5
Total program expenses	14,320	15,502	8.3	156,233	165,213	5.7
Public debt charges	2,731	2,718	-0.5	30,717	31,030	1.0
Total budgetary expenses	17,051	18,220	6.9	186,950	196,243	5.0

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	February		April to February	
	2006	2007	2005–06	2006–07
	($ millions)			
Budgetary balance (deficit/surplus)	3,948	4,586	12,986	14,120
Non-budgetary transactions				
Capital investing activities	-293	-447	-2,108	-2,196
Other investing activities	-627	-2	-2,655	-976
Pension and other accounts	-260	612	-363	4,309
Other activities				
Accounts payable, receivables, accruals and allowances	-1,164	-2,996	-7,293	-9,340
Foreign exchange activities	14	-22	2,611	-304
Amortization of tangible capital assets	199	329	2,748	2,793
Total other activities	-951	-2,689	-1,934	-6,851
Total non-budgetary transactions	-2,131	-2,526	-7,060	-5,714
Net financial source/requirement	1,817	2,060	5,926	8,406

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	February		April to February	
	2006	2007	2005–06	2006–07
	($ millions)			
Net financial source/requirement	1,817	2,060	5,926	8,406
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	2,245	-1,253	-5,526	-4,221
Treasury bills	-2,100	5,000	-7,300	-7,600
Canada Savings Bonds	-138	-132	-1,609	-2,083
Other	0	-13	-223	-1,173
Total	7	3,602	-14,658	-15,077
Foreign currency borrowings	-361	-287	-3,920	-3,718
Total	-354	3,315	-18,578	-18,795
Cross-currency swap revaluation	-1	43	-71	1,474
Unamortized discounts on debt issues	-147	-75	-399	-46
Obligations related to capital leases	4	-3	65	-78
Net change in financing activities	-498	3,280	-18,983	-17,445
Change in cash balance	1,319	5,340	-13,057	-9,039

Note: Totals may not add due to rounding.

Table 6

Condensed statement of assets and liabilities

	March 31, 2006	February 28, 2007	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	101,432	98,049	-3,383
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	256,913	-4,221
Treasury bills	131,597	123,997	-7,600
Canada Savings Bonds	17,342	15,259	-2,083
Other	3,102	1,929	-1,173
Subtotal	413,175	398,098	-15,077
Payable in foreign currencies	14,085	10,367	-3,718
Cross-currency swap revaluation account	-2,258	-784	1,474
Unamortized discounts and premiums on market debt	-6,780	-6,826	-46
Obligations related to capital leases	2,927	2,849	-78
Total unmatured debt	421,149	403,704	-17,445
Pension and other accounts			
Public sector pensions	131,062	134,193	3,131
Other employee and veteran future benefits	43,369	44,854	1,485
Other pension and other accounts	5,493	5,186	-307
Total pension and other accounts	179,924	184,233	4,309
Total interest-bearing debt	601,073	587,937	-13,136
Total liabilities	702,505	685,986	-16,519
Financial assets			
Cash and accounts receivable	82,843	79,761	-3,082
Foreign exchange accounts	40,827	41,131	304
Loans, investments and advances (net of allowances)	41,889	42,865	976
Total financial assets	165,559	163,757	-1,802
Net debt	536,946	522,229	-14,717
Non-financial assets	55,447	54,850	-597
Federal debt (accumulated deficit)	481,499	467,379	-14,120

For additional copies or subscription inquiries, please contact the Distribution Centre at 613-995-2855.
For other inquiries about this publication, contact Chris Forbes at 613-995-6391.
Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.
Ce document est également offert en français.
April 2007